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SUBJECT: SOUTH AFRICA TO USE DOHA DELAY TO NEGOTIATE BILATERAL
AGREEMENTS

PRETORIA 00003247 001.2 OF 002

¶1. (U) Summary. Xavier Carim, chief trade negotiator for South Africa, said in Johannesburg August 2 that South Africa would use the opportunity provided by the stalled Doha round to intensify trade talks with a variety of partners, including SACU, India, and to make preliminary assessments of a trade deal with China. It would also improve neglected aspects of its economic policy such as services and intellectual property rights enforcement. End Summary.

Background

¶2. (U) The South African Institute of International Affairs (SAIIA), part of Johannesburg's University of the Witwatersrand, held a seminar entitled "South African Trade Strategy: Rearranging the Deck Chairs?" on August 2. Some 65 people attended from government agencies, diplomatic missions, and the university to hear presentations by four speakers. Xavier Carim, the chief South African trade negotiator, spoke on the effects that the Doha Round's difficulties would have on South African policy. Dr. Lawrence Edwards of the University of Cape Town expounded on the scope for unilateral trade reform in South Africa. Peter Draper of SAIIA talked about the country's free trade negotiation agenda. Finally, Mark Pearson, the director of the UK's Regional Trade Facilitation Programme, gave a short presentation on the importance of southern and eastern Africa to South Africa's trade policy. Questions following each presentation varied, but the audience was uniformly sympathetic to neoliberal economic theory, favoring free trade over protectionism in principle.

Xavier Carim: SA will build bilateral trade relations

¶3. (U) Xavier Carim stressed that historical experience indicates that the Doha talks will resume eventually. Fundamentally, all countries have an interest in reviving talks, and nobody wants to lose the considerable progress already made through negotiations. He expects more clarity about the status of talks by September, when the WTO reconvenes after its August recess, but talks are unlikely to reopen before the American elections. In the next 5-8 months the U.S. legislature may change dramatically, Congress will discuss extending fast-track trade negotiating powers, and the U.S. Farm Bill may be changed or extended. If conditions in the U.S. are not amenable to a resumption of talks by next spring, Carim stated that

the WTO might be forced to wait for the next U.S. administration in 2009.

14. (U) Dismissing Pascal Lamy's concept of a "triangle of issues" holding up Doha (U.S. agricultural subsidies, EU market access, and developing countries' industrial tariffs), Carim said that agriculture is the single issue that will decide the future of the Doha round. The industrial tariffs were not a topic of discussion in the last days of negotiation. According to Carim, the final proposals made by the EU and U.S. are "an inversion" of the original Doha rhetoric, which recognized that developed states must accept less than full reciprocity from poorer countries for the sake of development. Many concessions will have to come from the developed states to make an agreement worthwhile for G-20 and NAMA-11 states. Carim also defended high tariffs in targeted economic sectors, claiming that no late-industrializing state has ever built a competitive export economy without government intervention.

15. (U) The Department of Trade and Industry (DTI) anticipates an opportunity to work with the WTO on several technical issues before the main talks recommence, particularly on antidumping measures. Carim also expressed hope that some WTO subsidiary bodies, particularly the dispute resolution mechanism, would enjoy some progress as member states would be able to devote attention to issues marginalized by the greater priorities of Doha. The pause in negotiations may also give South Africa time to stop "playing catch-up" on intellectual property, services, and other neglected portions of foreign trade policy and resolve ambiguities in its development strategy. The DTI also plans to finalize its industrial development strategy before talks resume, clarifying South Africa's priorities for negotiations. The Cabinet rejected a draft industrial policy last week, but declared that the plan's flaws are relatively minor.

16. (U) South Africa will also use the WTO lull to pursue a variety of regional and bilateral trade agreements. In southern Africa, Carim pledged to build common cause within SACU before Doha talks

PRETORIA 00003247 002.2 OF 002

resume and resolve trade issues within SADC. Carim emphasized that South Africa must pursue initiatives through SADC, SACU, and COMESA; no one body is strong enough yet for South Africa to abandon the others. However, he also admitted that a country cannot belong to more than one customs union; some consolidation or harmonization among the trade blocs is inevitable. SACU may also enter into negotiations with the EAC. Outside of Africa, South Africa will seek to deepen relationships with the EU through Economic Partnership Agreement negotiations. India is another possible partner for a bilateral deal, though no dates are set for talks. Carim also stated that South Africa is preparing for negotiations with China, though a great deal of internal assessment would be necessary before negotiations could begin. Economic cooperation will be a major focus of talks, rather than traditional free trade or preferential trade areas.

Lawrence Edwards: Unilaterally lower tariffs

17. (U) Dr. Lawrence Edwards, of the University of Cape Town, spoke on the benefits of unilateral trade reform. South Africa has a complex tariff structure, with 14% of tariff lines peaking over 30%. It is also a world leader in business complaints, largely due to its import/export policies. Although market access is important for manufacturers, Edwards claimed that lower tariffs on intermediate goods could be more valuable. In particular, research indicates that agriculture and textiles, two heavily-protected sectors of the SA economy, are uncompetitive primarily because expensive tariff-protected inputs raise the cost of production. While lower tariffs would probably raise GDP, he also acknowledged that the net effect on jobs is unclear and that employment losses would primarily hit vulnerable unskilled and semi-skilled workers. Adjustment policies would be necessary to offset negative social effects.

Peter Draper: Protectionist policies are failing SA

18. (U) Peter Draper is a Research Fellow for SAIIA's "Development Through Trade" program. His speech stressed that South Africa's trade strategy, focused largely upon maintaining high tariffs to protect key sectors, was not an effective way to deal with the country's problems. South Africa, he said, assumed market failure in building its sector strategies, thereby inviting state capture, inefficiency, higher prices, and a host of other economic evils. He was particularly critical of South Africa's Motor Industry Development Program (MIDP) (Pretoria 3203.) Although the MIDP has certainly attracted investment, its effects on employment are unimpressive, the sector's trade deficit is growing, vehicle prices are certainly higher, and South African transport costs are higher than they need be, making all other business less competitive by extension.

Mark Pearson: SADC is "an afterthought" in SA policy

19. (U) Mark Pearson is the director of a UK development agency for southern Africa, the Regional Trade Facilitation Program. His presentation on the place of southern and eastern Africa among South Africa's trade priorities concluded that Africa was relatively minor market for South Africa, though its trade was highly significant to the region's other countries. Zambia and Malawi, for instance, obtain 40% of their imports from South Africa. Although 19% of South African exports go to southern Africa, the economic status of its neighbors makes major expansion unlikely. Furthermore, South Africa is a sufficiently major producer in the African context to easily discount bilateral trade agreements with other African states. In general, major South African companies will move into promising markets with or without a regional trade agreement, opening the doors for other South African businesses. The effect of SADC on international trade is marginal, according to Pearson. Seventy percent of interstate trade within SADC stems from regional trade agreements predating SADC or negotiated outside of its framework and all but two of its members are presently negotiating other customs union agreements.

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